

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

-----In the Matter of-----) DOCKET NO. 2008-0273
)
PUBLIC UTILITIES COMMISSION)
)
Instituting a Proceeding to)
Investigate the Implementation of)
Feed-in Tariffs.)
_____)

THE DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT, AND TOURISM'S
COMMENTS ON THE HECO COMPANIES' PROPOSAL RELATING TO RELIABILITY
STANDARDS WORKING GROUP

AND

CERTIFICATE OF SERVICE

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COMMISSION

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**THE DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT, AND TOURISM'S
COMMENTS ON THE HECO COMPANIES' PROPOSAL RELATING TO RELIABILITY
STANDARDS WORKING GROUP**

The Department of Business, Economic Development, and Tourism ("Department" or "DBEDT"), by and through its Director ("Director") in his capacity as the Energy Resources Coordinator ("ERC"), through the Hawaii State Energy Office, hereby submits to the Hawaii Public Utilities Commission ("Commission") its comments on the HECO Companies' proposal to convene a Reliability Standards Working Group ("RSWG") and its Proposed Conceptual Framework for RSWG filed with the Commission in the above captioned docket. DBEDT's comments are submitted pursuant to the amended procedural schedule approved by the Commission's Order issued on March 11, 2010.

BACKGROUND

In its Decision and Order issued on September 25, 2009 ("Decision and Order") which sets forth the general principles for the implementation of feed-in tariffs ("FITs") in the HECO Companies' service territories, the Commission directed the HECO Companies "to develop reliability standards for each company, which should define most circumstances in which FIT projects can or cannot be incorporated on each island." (Decision and Order, at 50.) On February 8, 2010, the HECO Companies filed its *Report on Reliability Standards* ("HECO Report") pursuant to the Commission's Order Setting Schedule to govern the remainder of the docket issued on October 29, 2009, as amended.

The HECO Report proposed to defer the interconnection of additional renewable distributed generation systems ("DG") on the HELCO and MECO grids "until appropriate mitigation measures are identified and employed to appropriately integrate additional variable DG." (HECO Report, at 19 & 25.) The HECO Report also proposed "convening a Reliability Standards Working Group that would serve as an open and transparent forum to allow stakeholders and technical experts an opportunity to regularly review and provide input to the studies that are described in this report..." (HECO Report, at 4.) On February 19, 2010, the Commission issued a letter directing the HECO Companies "to elaborate their deferment proposals on the islands of Maui,

Hawaii, Lanai, and Molokai, including how and when the mitigation measures will be identified and employed, as well as their proposal to convene an RSWG.

On February 26, 2010, the HECO Companies filed their response ("HECO Response") to the Commission's letter clarifying their deferment proposals and their proposed conceptual framework for their proposed RSWG. DBEDT's comments discussed below will focus mainly on the HECO Companies' proposal relating to the RSWG as discussed in Attachment 1 of the HECO Companies' response to the Commission's letter. DBEDT will file its comments on the HECO Companies' *Report on Reliability Standards* filed on February 8, 2010 and on the companies' response to the PUC regarding their deferment proposals, on March 23, 2010 in accordance with the amended procedural schedule for this docket.

DBEDT'S COMMENTS ON HECO COMPANIES' PROPOSAL RELATING TO
RELIABILITY STANDARDS WORKING GROUP

1. The HECO Companies' proposal of establishing an RSWG and the proposed timeline for the implementation of this process would delay the implementation of the FIT Program. DBEDT is very concerned about the uncertainty and ambiguity in the HECO Response as to what and when the mitigating measures will be implemented on the HELCO and MECO systems. DBEDT has been relentless in recommending the need for, and

demonstrating the benefits of, implementing the FIT Program as soon as possible to promote and accelerate the use and development of renewable resources especially on Oahu, which accounts for approximately 80% of Hawaii's total electricity load but has the least amount of renewable resource-based generation.

The price of fuel is again on the rise, increasing the typical monthly residential bill on Oahu by \$8.34 or 5.6% beginning this month.¹ This increase in the electricity bill will undoubtedly have a more profound adverse impact on Hawaii's consumers given the current economic conditions and the high levels of unemployment across the state. DBEDT recommends that Commission approval of the HECO Companies' proposal to convene an RSWG should be conditioned on not delaying the implementation of the FIT program on Oahu, given the very limited amount of renewable generation on this island. In other words, the implementation of the FIT Program on Oahu, including Tier 1, Tier 2, and Tier 3, should begin as soon as possible regardless of the establishment and implementation of an RSWG process as may be approved by the Commission. This is in fact consistent with HECO's position as stated in the

¹ The Honolulu Advertiser, Hawaii's Business Today Section, March 13, 2010.

Companies' response to the Commission's letter. (HECO Response, at 3.)

In regards to the timing of the FIT Program on HELCO and MECO, the HECO Companies proposed that they should be subject to review by the RSWG. Notwithstanding, and as further discussed below, DBEDT recommends that the HELCO and MECO Tier 1 and Tier 2 FIT Tariffs be implemented by December 2010. The implementation of at least Tier 1 and Tier 2 on HELCO and MECO by the end of this year is reasonable, as this would be more than two years since the initiation of this docket. Furthermore, the Tiers 1 and 2 project sizes are the same as were proposed by the HECO Companies as appropriate and doable for these islands. The HECO Companies have not provided data to support their claim regarding the reliability issues on the HELCO and MECO systems, despite the Parties' (including DBEDT) requests for such data in their information requests (IR) and supplemental information requests (SIR) submitted to the HECO Companies. Absent such evidence, DBEDT believes that the implementation of the Tier 1 and Tier 2 on HELCO and MECO by the end of the year (2010) is in the public's best interest.

2. In response to the Commission's directive to develop reliability standards as noted above, the HECO Companies

instead conducted "system reviews to determine the amounts of renewable generation that could likely be integrated on each island." (HECO Report, at 3.) The HECO Companies' "system studies" concluded that: (a) at least for the time being, there is sufficient room on the Oahu distribution system to accommodate the new FIT program in addition to the other DG that may be developed via the other procurement methods; and (b) there is minimal or no room at this time to accommodate additional renewable resources (FIT or otherwise) on the HELCO and MECO systems without significant curtailment of existing or planned renewable resources or a threat to system reliability. (HECO Report, at 4.)²

The HECO Companies also proposed to convene an RSWG to validate the above findings of the companies' system studies. The companies' proposed conceptual framework in fact states that the first objective of the Working Group is "... to evaluate and further refine the preliminary findings." (HECO Response, Attachment 1 at 2.)

DBEDT observes that this stated objective of the RSWG effectively limits the scope of what the RSWG process should or would produce, and minimizes the Commission's

² DBEDT will provide its comments on the findings reported in the HECO Reports on March 23, 2010 per docket schedule.

directive to develop reliability standards for each island. DBEDT recommends that the objectives of the RSWG should be clearly defined and should go beyond validating the findings of the companies' system studies. Additionally, the expected results or deliverables of the RSWG should be clearly specified, which should include but not be limited to recommendations for measurable operational reliability service standards for each island; identification and verification of current system issues relating to, or caused by, the existing penetration levels of renewable generation on each island's system; identification of technical solutions to the current issues including the costs and time required to implement such solutions; and identification of the changes or enhancements to HECO's systems that must be done, including the costs, in order to remove the system barriers to integrating as much renewable generation as possible.

3. DBEDT generally supports the need to commission an independent study on the physical limitations of the HECO systems, and to develop operational reliability standards that provide transparency and greater predictability with respect to reliability issues that could affect interconnecting renewable resources to the systems either through the FIT program or from other procurement methods.

The HECO Companies' proposed conceptual framework includes commissioning a consultant to develop "technical studies". While this element of the companies' proposed framework is necessary, DBEDT observes that the proposed framework whereby the Technical Support Group, chaired by the HECO Companies, will oversee the consultant may not provide nor result in an independent and objective study of the HECO systems.

DBEDT instead recommends that the consultants as well as an Independent Facilitator be hired by, and report to, the Commission and funded by the HECO Companies; that the Independent Facilitator will oversee the consultants; and the Technical Support Group (chaired by the HECO Companies) will assist the Independent Facilitator in directing and reviewing the consultants' work. DBEDT is in support of the HECO Companies chairing the Technical Support Group as they have the most intimate knowledge and information about their systems. However, DBEDT believes that it is equally important that the process result in and produce an unbiased study and analysis of the HECO systems as well as objective and transparent operational reliability standards that will facilitate the interconnection of renewable resources to the grid. Thus, an "arms-length" relationship between HECO and the consultants will perhaps best achieve

the intent of having an independent assessment of the HECO Companies' systems.

DBEDT supports HECO's proposal to have the two non-FIT Parties, HNEI and EPRI, included in the Technical Support Group. HNEI has done many technical Hawaii-related energy projects and has an intimate understanding of Hawaii. EPRI has a much respected technical expertise in the electricity sector and a broad array of research and programs focusing on many technology challenges specific to the electricity industry that will be useful to the RSWG.

With regards to the HECO Companies' proposal to also include certain National Laboratories in the Technical Working Group, DBEDT would like to note that there are twenty-one national labs across the nation, each having distinct focus and expertise. Based on information about these national labs, there are at least six (Pacific Northwest National Laboratory, Oak Ridge National Laboratory, Lawrence Berkeley National Laboratory, Argonne National Laboratory, Sandia National Laboratory, and National Renewable Energy Laboratory) who appear to specialize and possess the technical expertise on electricity systems, infrastructure, and energy technologies that will be useful to the RSWG. Given the diversity of resources and expertise from these national

labs, DBEDT recommends that instead of formally including only one or only some of these labs in the Technical Support Group, that the RSWG will reach out to any one of these national labs on any specific issues and on an as-needed basis. This flexibility will allow the RSWG to tap the national lab with the best technical expertise on the specific issues that may come up.

4. There are a lot of ambiguities in the HECO Companies' proposed conceptual framework. For instance, it is not clear what the companies mean by "[t]he Working Group will be convened under the authority of the Commission..." (HECO Response, Attachment 1 at 2.) DBEDT suggests that the role of the Commission is to approve the establishment of an RSWG and a framework that will govern the RSWG process including the identification of the process structure and governance, objectives, required results or deliverables, and the process timeline. The HECO Companies' will convene the initial RSWG meeting(s) until the Independent Facilitator is hired. Thereafter, the Independent Facilitator will convene and facilitate all future RSWG meetings including the Working Group meetings, the Technical Support Group meetings, and the meetings between the groups as well as with the consultants.

Under DBEDT's proposed governance, the Independent Facilitator will play a key role in the RSWG process. Thus, in addition to having the industry knowledge on the technical and commercial issues as suggested by the HECO Companies, the Independent Facilitator should also have an intimate knowledge and understanding of Hawaii's energy environment and business culture. Further, the Independent Facilitator must be objective, unbiased, and should not be representing business or financial interests that could be impacted by the issues in this docket.

5. HECO's proposed conceptual framework has a five-tier structure consisting of: (a) the Commission, (b) the Working Group, (c) the Technical Support Group, (d) outside consultants or contractors, and (e) an Independent Facilitator. The process framework should clearly define the roles of each group.

Under HECO's proposed framework, the Working Group will include all the Parties in this docket. However, HECO's proposed conceptual framework needs to further clarify the role of the Working Group. DBEDT recommends that the Working Group's role should include but not be limited to identifying the scope and issues that must be addressed by the consultants' technical studies; evaluating the results and findings of the consultants' studies; and

making recommendations to the Commission. The Working Group should be provided reasonable access to the results of the consultants' studies and analysis, including the data and assumptions used, with appropriate and reasonable safeguards for confidentiality of proprietary data or information; as well as reasonable interface (or interaction) with the consultants when necessary, and in the presence of the Independent Facilitator, in order to gain a clear understanding of the studies' methodologies, assumptions, and results.

DBEDT recommends that the role of the Technical Support Group should be limited to assisting the Independent Facilitator in directing the work of the consultants, reviewing the appropriateness of the model or methodology used by the consultants, and reviewing and double checking the consultants' analysis and studies including the data and assumptions used. The Technical Support Group should also be assigned the role of assisting the Working Group in identifying the scope and issues that must be addressed by the consultants' studies. DBEDT also recommends that the Technical Support Group must not be used or assigned the role or authority to "filter" the information that is shared or made available to the Working

Group. Further, the Technical Support Group must not be assigned any decision-making role.

The Independent Facilitator should report to, and be directed by, the Commission and will have the oversight role over the Working Group, the consultants' work, and the overall process.

6. The HECO Companies' framework proposal relating to funding needs to be clarified. For instance, it is not clear what HECO means by its proposal that "[t]he Technical Support Group members will collaborate in pursuing as much outside funding as possible for the technical studies...", and how this collaboration to pursue funding will be implemented. It is also unclear what the consequences may be if such collaboration fails to get outside funding.
7. In regards to HECO's proposed schedule for the RSWG, DBEDT strongly recommends that the schedule clearly identify the deliverables and/or the required project results. DBEDT is concerned with the impact of the proposed RSWG schedule on the timing of the implementation of the FIT Program especially on HELCO and MECO.

DBEDT recommends that implementation of the technical solutions on the HELCO and MECO systems should be allowed to occur as soon as such solutions are identified and confirmed by the Working Group to be reasonable and prudent

to implement, without waiting for the conclusion of the RSWG process. As suggested above, the HELCO and MECO Tier 1 and Tier 2 FIT Tariffs should be implemented by December 2010. This will be over two years since the opening of this docket. The Tier 1 and Tier 2 project sizes are consistent with the HECO Companies' proposal for the eligible project sizes that are reasonable and doable on these islands. More importantly, the HECO Companies have not provided evidence on their claims relating to the system issues that are caused by the existing penetration levels of renewable generation on the HELCO and MECO systems.

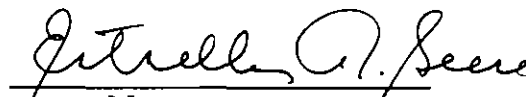
DBEDT would like to note that there have been several system studies done on the HECO systems in the recent past that were partly funded by the US Department of Energy under HCEI. To expedite the RSWG process, DBEDT recommends that the consultants' work for the RSWG should not duplicate those studies. DBEDT recommends that in scoping the work to be done for the RSWG, the Commission require the HECO Companies to provide the Working Group with a list of the system studies that have been done including the scope and the results of those studies.

In summary, DBEDT recognizes the need to have an independent assessment of the HECO's systems, and generally

supports the concept of an RSWG, subject to consideration of the recommendations offered above. More importantly, this support should not be construed as over-riding DBEDT's recommendation to implement the FIT Program on Oahu as soon as possible and Tier 1 and Tier 2 on HELCO and MECO by December 2010, nor should it be construed as an agreement by DBEDT with the HECO Companies' preliminary findings and deferral proposals as provided in its Report on Reliability Standards filed with the Commission on February 8, 2010 and clarified in its letter to the Commission dated February 26, 2010.

As discussed above and throughout the course of this proceeding, the implementation of the FIT Program is critical in achieving Hawaii's energy transformation and reducing the State's dependence on imported fossil fuel. DBEDT therefore, respectfully recommends that the Commission approve as soon as possible the establishment of the RSWG to assess, identify, and address the system barriers to interconnecting renewable resources (FIT and otherwise) to the utility systems.

DATED: Honolulu, Hawaii, March 15, 2010.



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Certificate of Service

I hereby certify that I have served a copy of the Department of Business, Economic Development, and Tourism's comments on the proposed Reliability Standards Working Group filed in PUC Docket Number 2008-0273, by electronic transmission on the date of signature to each of the parties listed below.

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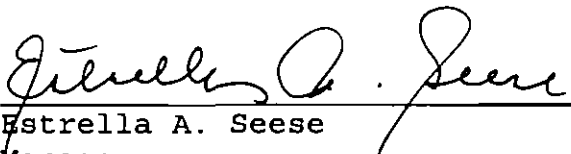
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